AR82

2006

ANNUAL REPORT

SGI CANADA Insurance Services Ltd.

SGI CANADA

Responsibility for Financial Statements

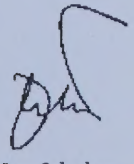
The consolidated financial statements are the responsibility of Management and have been prepared in conformity with accounting principles generally accepted in Canada. In the opinion of Management, the consolidated financial statements fairly reflect the financial position, results of operations and cash flows of SGI CANADA Insurance Services Ltd. (the Corporation) within reasonable limits of materiality.

Preparation of financial information is an integral part of Management's broader responsibilities for the ongoing operations of the Corporation. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by an internal audit department.

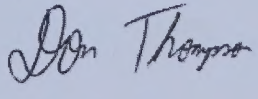
An actuary has been appointed by the Corporation to carry out a valuation of the policy liabilities and to issue a report thereon to the shareholders and regulatory authorities. The valuation is carried out in accordance with accepted actuarial practice and common Canadian insurance regulatory requirements. The policy liabilities consist of a provision for unpaid claim and adjustment expenses on the earned portion of policies and of future obligations on the unearned portion of policies. In performing this valuation, the actuary makes assumptions as to future rates of claim frequency and severity, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Corporation and the nature of the insurance policies. The actuary also makes use of Management information provided by the Corporation and the work of the external auditors in verifying the data used in the valuation.

The consolidated financial statements have been examined and approved by the Board of Directors. An Audit and Finance Committee, composed of members of the Board of Directors, meets periodically with financial officers of the Corporation and the external auditors. These external auditors have free access to this Committee, without Management present, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

KPMG have been appointed external auditors. Their responsibility is to report to the shareholder and regulatory authorities regarding the fairness of presentation of the Corporation's financial position and results of operations as shown in the consolidated financial statements. In carrying out their audit, the external auditors also make use of the work of the actuary and her report on the policy liabilities. The Auditors' Report outlines the scope of their examination and their opinion.



Jon Schubert
President



Don Thompson
Chief Financial Officer

February 22, 2007

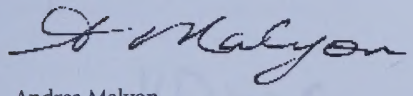
Actuary's Report

To the Shareholder of SGI CANADA Insurance Services Ltd.

I have valued the policy liabilities of SGI CANADA Insurance Services Ltd. for its consolidated statement of financial position at December 31, 2006 and their change in the consolidated statement of operations and retained earnings for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods, except as described in the following paragraph.

In accepted actuarial practice, the valuation of policy liabilities reflects the time value of money. Management required that the valuation of policy liabilities not reflect the time value of money, which is permissible under Canadian generally accepted accounting principles for financial reporting purposes. My valuation complies with that practice.

In my opinion, except as noted in the previous paragraph, the amount of policy liabilities makes appropriate provision for all policyholder obligations, and the consolidated financial statements fairly present the results of the valuation.



Andrea Malyon
Assistant Vice President, Corporate Actuary
Saskatchewan Government Insurance
Fellow, Canadian Institute of Actuaries

February 22, 2007

Auditors' Report

To the Shareholder of SGI CANADA Insurance Services Ltd.

We have audited the consolidated statement of financial position of SGI CANADA Insurance Services Ltd. as at December 31, 2006 and the consolidated statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Regina, Canada

February 22, 2007

Consolidated Statement of Financial Position

year ended December 31	2006	2005
	(thousands of $)	
Assets		
Cash and cash equivalents (note 3)	$ 3,448	$ 10,795
Accounts receivable (note 4)	27,823	21,874
Deferred policy acquisition costs	5,724	4,576
Reinsurers' share of unearned premiums (note 7)	865	749
Future income taxes (note 11)	3,150	2,809
Goodwill	481	481
Investments (note 5)	144,797	128,929
Unpaid claims recoverable from reinsurers (notes 7 & 8)	29,504	29,666
Property, plant and equipment (note 6)	69	24
	$215,861	$199,903
Liabilities		
Accounts payable	$ 12,329	$ 6,622
Premium taxes payable	376	247
Amounts due to reinsurers (note 7)	15,601	12,701
Unearned reinsurance commissions	175	155
Unearned premiums	25,760	20,860
Provision for unpaid claims (note 8)	93,508	104,446
	147,749	145,031
Non-controlling interest	1,792	1,623
Shareholder's equity		
Share capital (note 12)	27,254	27,254
Contributed surplus	32,487	32,487
Retained earnings (deficit)	6,579	(6,492)
	66,320	53,249
	$215,861	$199,903

Commitments and contingencies (note 18)

(see accompanying notes)

Consolidated Statement of Operations and Retained Earnings

year ended December 31	2006	2005
	(thousands of $)	
Gross premiums written	$ 51,559	$ 48,553
Net premiums written	$ 48,767	$ 45,398
Net premiums earned (note 7)	$ 44,017	$ 45,189
Claims incurred (note 7)	18,763	23,109
Commissions (note 7)	9,013	9,120
Administrative expenses (note 7)	5,749	4,684
Premium taxes (note 7)	1,698	1,698
Facility Association participation (note 16)	(597)	(1,058)
Total claims and expenses	34,626	37,553
Underwriting profit	9,391	7,636
Investment earnings (note 9)	7,125	5,416
Income before loss from service agreement, income taxes and non-controlling interest	16,516	13,052
Loss from service agreement (note 10)	1,588	9,705
Income before income taxes and non-controlling interest	14,928	3,347
Income taxes (recovery) (note 11)	1,377	(884)
Income after income taxes and before non-controlling interest	13,551	4,231
Non-controlling interest	480	636
Net income	13,071	3,595
Deficit, beginning of year	(6,492)	(10,087)
Retained earnings (deficit), end of year	$ 6,579	$ (6,492)

(see accompanying notes)

Consolidated Statement of Cash Flows

year ended December 31	2006	2005
	(thousands of $)	
Cash provided by (used for):		
Operating activities		
Net income	$ 13,071	$ 3,595
Non-cash items:		
Amortization	612	730
Net realized gain on sale of investments	(264)	(754)
Future income taxes	(341)	(2,738)
Income from investments accounted for on the equity basis	(215)	(147)
Non-controlling interest	169	387
Change in non-cash operating items (note 13)	(4,320)	17,857
	8,712	18,930
Investing activities		
Purchases of investments	(258,241)	(224,079)
Proceeds on sale of investments	242,241	183,053
Purchases of property, plant and equipment	(59)	-
	(16,059)	(41,026)
Financing activities		
Contributed surplus	-	25,000
Increase (decrease) in cash and cash equivalents	**(7,347)**	2,904
Cash and cash equivalents, beginning of year	10,795	7,891
Cash and cash equivalents, end of year	**$ 3,448**	$ 10,795
Supplemental cash flow information:		
Income taxes paid	$ 2,273	$ 2,462

(see accompanying notes)

Notes to the Financial Statements

December 31, 2006

1. NATURE OF OPERATIONS

SGI CANADA Insurance Services Ltd. (the Corporation) conducts property and casualty business directly in Alberta and Manitoba, in Ontario through its wholly owned subsidiary Coachman Insurance Company (Coachman) and in Prince Edward Island, Nova Scotia and New Brunswick through its 75% owned subsidiary The Insurance Company of Prince Edward Island (ICPEI).

In many provinces in Canada, automobile insurance premium rates are regulated by provincial government authorities. Regulation of premium rates is based on claims and other costs of providing insurance coverage, as well as projected profit margins. Regulatory approvals can limit or reduce premium rates that can be charged, or delay the implementation of changes in rates. The Corporation's automobile premiums are subject to rate regulation in Alberta, Ontario, Prince Edward Island, New Brunswick and Nova Scotia which represent approximately 49 per cent (2005 - 54%) of the Corporation's consolidated net premiums earned.

The Corporation was incorporated on July 18, 1990, under *The Business Corporations Act* (Saskatchewan). The Corporation holds a Saskatchewan provincial insurers' licence under *The Saskatchewan Insurance Act* and is licensed to conduct business in Alberta, Manitoba and Ontario.

Saskatchewan Government Insurance (SGI CANADA) owns 100% of the Corporation and its financial results are included in the consolidated financial statements of SGI CANADA.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Corporation have been prepared in accordance with Canadian generally accepted accounting principles. The following accounting policies are considered to be significant:

Consolidation

The consolidated financial statements include the accounts of the Corporation, its 100%-owned subsidiary, Coachman and its 75%-owned subsidiary, ICPEI. All inter-company accounts and transactions have been eliminated on consolidation.

Deferred policy acquisition costs

Premium taxes, commissions and certain underwriting and policy issuance costs are charged to expense over the terms of the insurance policies to which such costs relate. The method followed in determining the deferred policy acquisition costs limits the amount of the deferral to the amount recoverable from unearned premiums after giving consideration to investment income, as well as claim and adjustment expenses expected to be incurred as the premiums are earned.

Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated, as of the date of the business combination, to the Company's reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is not amortized and is tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first

step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary.

The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case, the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner, as the value of goodwill is determined in a business combination as described previously, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the statement of earnings before extraordinary items and discontinued operations.

Investments
Bonds and debentures are recorded at amortized cost. Treasury bills, common shares and pooled equity funds are recorded at cost. Dividends on common shares are recognized as income on their record dates. Gains and losses on the sale of investments are recognized on their trade date. Investments are written down when there is a decline in value that is other than temporary.

Where the Corporation has investments in shares and exercises significant influence, the investments are accounted for on the equity basis and the Corporation's investment is adjusted for its share of the investee's net earnings or losses and reduced by dividends received.

Property, plant and equipment
Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is recorded on a straight-line basis, commencing in the year in which the assets are placed in service, over their estimated useful lives of three years for computer hardware and software and five years for other equipment.

Provision for unpaid claims
The provision for unpaid claims represents an estimate of the total cost of outstanding claims to the year-end date. The estimate includes the cost of reported claims, and claims incurred but not reported, and an estimate of adjustment expenses to be incurred on these claims. The provision is calculated without discounting. The estimates are necessarily subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current period.

Premiums
Premiums written are taken into income over the terms of the related policies, no longer than twelve months. Unearned premiums represent the portion of the policy premiums relating to the unexpired term of each policy.

Reinsurance ceded
Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts.

Unpaid claims recoverable from reinsurers, reinsurers' share of unearned premiums and unearned reinsurance commissions are estimated in a manner consistent with the method used for determining the provision for unpaid claims, unearned premiums and deferred policy acquisition costs respectively.

Income taxes
The Corporation uses the asset and liability method of accounting for income taxes. Current income taxes are recognized as estimated income taxes payable for the current year. Future income tax assets and liabilities consist of temporary differences between tax and accounting bases of assets and liabilities as well as the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized.

Foreign currency translation
Monetary assets and liabilities denominated in foreign currency are translated at the exchange rate in effect at the date of the Statement of Financial Position. Revenues and expenses are translated at the exchange rate in effect at the transaction date. Unrealized gains and/or losses arising on translation are charged to operations in the current year.

Cash and cash equivalents
Cash and cash equivalents consist of cash on hand and treasury bills with a maturity of 90 days or less from the date of acquisition.

Measurement uncertainty
The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined. The most significant estimation process is related to the actuarial determination of the provision for unpaid claims (note 8).

3. CASH AND CASH EQUIVALENTS
Cash and cash equivalents include $3,233,000 (2005 - $8,215,000) in treasury bills earning an average effective interest rate of 4.4% (2005 - 3.3%).

4. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	(thousands of $)	
	2006	2005
Due from insureds	$ 10,623	$ 7,638
Investment proceeds receivable	6,055	-
Facility Association receivable (note 16)	4,264	4,366
Due from brokers	2,546	1,926
Due from reinsurers	1,154	1,139
Accrued investment income	1,109	1,501
Service agreement receivable	-	1,235
Other	2,072	4,069
Total accounts receivable	$ 27,823	$ 21,874

Included in due from insureds is $10,183,000 (2005 - $7,078,000) of financed premiums receivable, which represents the portion of our policyholders monthly premium payments that are not yet due. The majority of our policyholders have the option to pay a portion of the premium when the policy is placed in force and the balance in monthly instalments. The policyholder pays an additional charge for this option, reflecting handling costs and the investment income that would have been earned on such premium, had the total amount been collected at the beginning of the policy period. The additional charge is recognized over the period of the policy.

5. INVESTMENTS

The carrying value and fair value of the Corporation's investments are as follows:

	(thousands of $)			
	2006		2005	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Short-term investments	$ 9,133	$ 9,133	$ 8,920	$ 8,920
Bonds and debentures	113,347	113,523	118,676	118,989
Pooled equity funds				
- Canadian	12,419	12,970	-	-
- United States	4,265	4,516	-	-
- non-North American	4,201	4,799	-	-
Canadian common shares	164	297	169	268
	143,529	145,238	127,765	128,177
Investments accounted for on the equity basis	1,268	1,268	1,164	1,164
Total investments	$144,797	$146,506	$128,929	$129,341

Details of significant terms and conditions, exposures to interest rate and credit risks of investments are as follows:

(i) Short-term investments:
Short-term investments are comprised of treasury bills with a maturity of less than one year but greater than 90 days from the date of acquisition. These investments have an average effective interest rate of 4.3% (2005 - 3.3%) and an average remaining term to maturity of 115 days (2005 - 167 days). The Corporation's investment policy states that investments must meet minimum investment standards of R-1, as rated by a recognized credit rating service.

Holdings for any one issuer, other than the Government of Canada or a Canadian province, are limited to 10% of the market value of the combined short-term investment and bond portfolios.

Carrying amounts for short-term investments approximate fair value due to the immediate or short-term nature of these financial instruments.

(ii) Bonds and debentures:
The Corporation's investment policy states that the minimum quality standard for the purchase of bonds and debentures is BBB, as rated by a recognized credit rating service.

The Corporation's investment policy limits its holdings for any one issuer, other than the Government of Canada or a Canadian province, to 10% of the market value of the combined bond and short-term investment portfolios. The holdings for any one province are limited to 20% of the market value of the bond portfolio. No more than 10% of the market value of the bond portfolio shall be invested in bonds of foreign issuers and all bonds must be denominated in Canadian dollars.

The carrying value and average effective interest rates are shown in the following chart by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties. The carrying values are essentially the same as the principal values and therefore the average effective rates are not materially different from the coupon rates. Interest is generally payable on a semi-annual basis.

(thousands of $)

	2006		2005	
Term to maturity (years)	Carrying Value	Average Effective Rates	Carrying Value	Average Effective Rates
Government of Canada:				
One or less	$ 100	4.6%	$ -	-
After one through five	62,592	4.4%	35,224	3.8%
After five	4,761	3.9%	29,868	4.6%
Canadian provincial:				
One or less	177	5.8%	1,032	5.3%
After one through five	11,196	5.5%	10,568	5.3%
After five	6,168	5.0%	16,276	5.2%
Canadian corporate:				
After one through five	23,410	4.6%	16,875	4.5%
After five	4,943	4.6%	8,833	5.4%
Total bonds & debentures	$113,347		$118,676	

For bonds and debentures, the fair values are considered to approximate quoted market values, based on the latest bid prices.

(iii) Pooled equity funds:
The Corporation owns units in Canadian, United States and non-North American pooled equity funds that have no fixed distribution rate. Fund returns are based on the success of the fund managers.

The fair value of pooled equity funds is considered to approximate the quoted market values of the underlying investments, based on the latest bid prices.

(iv) Common shares:
Common shares have no fixed maturity dates and are generally not exposed to interest rate risk. The average effective dividend rate is 5.0% (2005 - 4.0%).

The Corporation's investment policy limits its investment concentration in any one investee or related group of investees to 10% of the market value of the Corporation's common shares portfolio. As well, no one holding may represent more than 10% of the voting shares of any corporation.

The fair value of common shares are considered to approximate quoted market values on recognized stock exchanges, based on the latest bid prices.

(v) Investments accounted for on the equity basis:
The Corporation has a 25% ownership in three companies consisting of Charlie Cooke Insurance Agency Ltd., Atlantic Adjusting & Appraisals Ltd. and Maritime Finance & Acceptance Corporation.

The fair value of investments accounted for on the equity basis is considered to approximate book value.

6. PROPERTY, PLANT AND EQUIPMENT

The components of the Corporation's investment in property, plant and equipment, as well as the related accumulated amortization, are as follows:

	(thousands of $)			
	2006			2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Building	$ 33	$ 13	$ 20	$ 3
Computer hardware, software and other equipment	841	792	49	21
Total	$ 874	$ 805	$ 69	$ 24

Amortization for the year is $15,000 (2005 - $32,000) and is included in administrative expenses on the consolidated statement of operations and deficit.

7. UNDERWRITING POLICY AND REINSURANCE CEDED

The Corporation underwrites and reinsures contracts of insurance with SGI CANADA and other reinsurers, which limits the liability of the Corporation to a maximum amount on any one loss as follows:

	(thousands of $) 2006	2005
General liability and property	$ 150	$ 150
Automobile	250	250
Catastrophe	250	250

The following table sets out the amount by which reinsurance ceded has reduced the premiums earned, claims incurred, commissions, premium taxes and administrative expenses:

	(thousands of $) 2006	2005
Premiums earned	$ 4,809	$ 4,477
Claims incurred	4,084	1,616
Commissions and premium taxes	248	245
Administrative expenses	52	47

8. PROVISION FOR UNPAID CLAIMS

(i) Nature of unpaid claims:

The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex process influenced by a variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Corporation at the year-end date and therefore estimates are made as to the value of these claims. As well, uncertainty exists regarding the cost of reported claims that have not been settled, as all the necessary information may not be available at the date of the statement of financial position.

Factors used to estimate the provision include: the Corporation's experience with similar cases, historical claim payment trends, the characteristics of each class of business, claim severity and claim frequency, the effect of inflation on future claim settlement costs, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as physical damage or collision claims tend to be more reasonably predictable than long-tail claims such as liability claims.

As a result, the establishment of the provision for unpaid claims relies on a number of factors and on the judgment and opinions of a number of individuals, which necessarily involves risk that actual results may differ materially from the estimates.

Changes in the estimate for the provision for unpaid claims are as follows:

	(thousands of $) 2006	2005
Net unpaid claims - beginning of year	$ 74,780	$ 66,756
Payments made during the year relating to:		
Prior year claims	(15,629)	(14,055)
Prior year unpaid service agreement claims	(3,231)	-
Prior year Facility Association claims	(286)	(460)
Excess relating to:		
Prior year estimated unpaid claims	(9,626)	(6,428)
Prior year unpaid service agreement claims	1,588	9,705
Prior year estimated unpaid Facility Association claims	(902)	(638)
Net unpaid for claims of prior years	46,694	54,880
Provision for claims occurring in the current year	16,788	19,036
Provision for Facility Association claims occurring in the current year	522	864
Net unpaid claims - end of year	$ 64,004	$ 74,780

The fair value of the provision for unpaid claims and unpaid claims recoverable from reinsurers has not been provided because it is not practicable to determine fair value with sufficient reliability.

(ii) Type of unpaid claims:
The provision for unpaid claims is summarized by line of business as follows:

	(thousands of $) 2006			2005		
	Gross	Reinsurance Recoverable	Net	Gross	Reinsurance Recoverable	Net
Automobile	$ 66,313	$ 25,180	$ 41,133	$ 76,435	$ 25,263	$ 51,172
Property	7,145	2,064	5,081	6,407	1,775	4,632
Liability	7,949	2,260	5,689	7,194	2,628	4,566
Service agreement (note 10)	9,297	-	9,297	10,940	-	10,940
Facility Association (note 16)	2,804	-	2,804	3,470	-	3,470
Total	$93,508	$29,504	$64,004	$104,446	$29,666	$74,780

(iii) Structured settlements

Through its subsidiary, the Corporation settles some long-term disability claims by purchasing annuities from various financial institutions. The settlements legally release the Corporation from its obligations to the claimants. Consequently, neither the annuities purchased nor the claim liabilities are recognized on the Statement of Financial Position. However, as part of the settlement, the Corporation provides a financial guarantee to the claimants in the event the financial institutions default on the scheduled payments. As at December 31, 2006, no information has come to the Corporation's attention that would suggest any weakness or failure in the financial institutions from which it has purchased the annuities. Consequently, no provision for credit risk is required. The net present value of the scheduled payments as of the date of the Statement of Financial Position is $1,427,000 (2005 - $1,578,000).

9. INVESTMENT EARNINGS

The components of investment earnings are as follows:

	(thousands of $)	
	2006	2005
Interest	$ 3,995	$ 3,806
Pooled equity funds	1,745	-
Premium financing	897	694
Net realized gain on sale of investments	264	760
Investments accounted for on the equity basis	215	147
Dividends	9	9
Total investment earnings	$ 7,125	$ 5,416

10. LOSS FROM SERVICE AGREEMENT

During 1998, a subsidiary of the Corporation, Coachman, issued an insurance policy to a vehicle rental company (the rental company). The policy provided bodily injury liability coverage on the rental company's vehicles being driven by its customers. The rental company paid the Corporation an annual premium under this policy between $100,000 and $120,000. At the same time, the Corporation made an agreement that allowed the rental company to settle and pay all claims submitted by its customers. Because the insurance coverage was in the name of the Corporation, the rental company was required to report to the Corporation quarterly on the status of all reported claims and the provision for unpaid claims. As security to guarantee the provision for unpaid claims, a trust account was to be maintained in an amount that would meet the funding of the outstanding liabilities related to the policy.

The agreement with the rental company expired on March 31, 2005. Subsequent to the expiration of the contract, the rental company filed for voluntary receivership. During the receivership proceedings, it was determined that the rental company had not reported claims correctly to Coachman, nor had it deposited the correct amounts in the trust account. Coachman has since collected the balance held in the trust account of $1,235,000. A loss from service agreement of $1,588,000 (2005- $9,705,000) has been charged to operations in the current year.

During the year, Coachman commenced legal action against certain of the parties involved to recover the shortfall related to this service agreement. Any recovery will be accounted for in the year of receipt.

11. INCOME TAXES

The Corporation's provision for (recovery of) income taxes is as follows:

	(thousands of $) 2006	2005
Current	$ 1,718	$ 1,854
Future	(341)	(2,738)
Total income taxes (recovery)	$ 1,377	$ (884)

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates to income before income taxes and non-controlling interest. The reasons for the differences are as follows:

	(thousands of $) 2006	2005
Income before income taxes and non-controlling interest	$ 14,928	$ 3,347
Combined federal and provincial tax rate	36.47%	38.84%
Computed tax expense based on combined rate	$ 5,444	$ 1,300
Increase (decrease) resulting from:		
Investment earnings not subject to taxation	(81)	(58)
Non deductible expenses for tax purposes	25	20
Valuation allowance	(4,030)	(2,149)
Other	19	3
Total income taxes (recovery)	$ 1,377	$ (884)

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities are presented below:

	(thousands of $) 2006	2005
Future income tax assets		
Tax loss carryforward	$ 4,927	$ 8,446
Provision for unpaid claims	1,794	2,093
Other	27	34
	6,748	10,573
Less: valuation allowance	(1,896)	(5,926)
Total future income tax assets	4,852	4,647
Future income tax liabilities		
Investments	1,073	1,120
Unpaid claims recoverable from reinsurers	629	718
Total future income tax liabilities	1,702	1,838
Net future income tax assets	$ 3,150	$ 2,809

The Corporation has non-capital loss carryforwards of approximately $13,639,000 (2005 - $23,385,000) that expire in 2015.

12. SHARE CAPITAL

Authorized:

Unlimited number of common shares with no par value.
Unlimited number of non-voting first preferred shares.

Issued and fully paid:	(thousands of $) 2006	2005
6,155,616 common shares	$ 27,254	$ 27,254

13. CHANGE IN NON-CASH OPERATING ITEMS

The change in non-cash operating items is comprised of the following:

	(thousands of $) 2006	2005
Accounts receivable	$ 106	$ (3,308)
Deferred policy acquisition costs	(1,148)	15
Reinsurers' share of unearned premiums	(116)	1,320
Unpaid claims recoverable from reinsurers	162	2,249
Accounts payable	(335)	3,412
Premium taxes payable	129	(197)
Amounts due to reinsurers	2,900	9,916
Unearned reinsurance commissions	20	5
Unearned premiums	4,900	(1,330)
Provision for unpaid claims	(10,938)	5,775
	$ (4,320)	$ 17,857

14. FAIR VALUE

The fair value of financial assets and liabilities, other than investments (note 5), unpaid claims and unpaid claims recoverable from reinsurers (note 8) approximate carrying value due to their immediate or short-term nature.

15. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties"). Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

Transactions and amounts outstanding at year-end are as follows:

Category	(thousands of $) 2006	2005
Accounts receivable	$ 17	$ 21
Investments	1,646	2,384
Investment earnings	111	96
Administrative expenses	23	31

SGI CANADA provides management and administrative services to the Corporation as well as being one of its reinsurers (note 7). Administrative and claim adjusting expenses incurred by SGI CANADA and charged to the Corporation were $2,475,000 (2005 - $2,371,000) and accounts payable are $528,000 (2005 - $127,000). Related to the Corporation's reinsurance agreement with SGI CANADA is $14,345,000 (2005 - $12,202,000) of accounts payable, $598,000 (2005 $1,121,000) of accounts receivable and $677,000 (2005 - $288,000) of interest paid included in investment earnings. Reinsurance ceded to SGI CANADA has reduced premiums earned by $2,887,000 (2005 - $2,748,000) and claims incurred by $4,260,000 (2005 - $4,999,000).

The Corporation has direct premiums that are brokered through Charlie Cooke Insurance Agency Ltd., pays claim adjusting fees to Atlantic Adjusting & Appraisals Ltd. and has premiums financed for policyholders by Maritime Finance & Acceptance Corporation. These companies are affiliated with the minority shareholder of ICPEI, who is a member of ICPEI's senior management. The policies written and the claim adjusting expenses paid are routine operating transactions in the normal course of business.

Transactions and amounts outstanding at year-end are as follows:

Category	(thousands of $) 2006	2005
Accounts receivable	$ 453	$ 487
Accounts payable	407	882
Premiums written	8,102	8,451
Claims incurred	392	411
Commissions	1,487	2,034
Premiums financed	3,329	3,384

In 2003, the Corporation entered into an agreement with SGI CANADA through its subsidiary Coachman, whereby SGI CANADA would transfer to Coachman, net amounts recoverable after December 31, 2002 on reinsurance for adverse loss development on Coachman losses occurring prior to April 30, 2001. Coachman will reimburse SGI CANADA for any costs it may incur under the reinsurance contract. At December 31, 2006, $3,519,000 (2005 - $1,859,000) was accrued under this reinsurance policy.

Other related party transactions are disclosed separately in the notes to the financial statements.

16. FACILITY ASSOCIATION PARTICIPATION

Through its subsidiaries, the Corporation is a participant in automobile residual market and risk sharing pools, whereby companies in the industry are required by regulation to provide automobile insurance coverage to high risk insureds.

Facility Association transactions recorded in the Corporation's financial results are as follows:

	(thousands of $)	
	2006	2005
Gross premiums written	$ 432	$ 1,486
Net premiums earned	$ 646	$ 1,705
Claims incurred	(64)	305
Commissions	67	175
Premium taxes	21	58
Administrative expenses	154	223
Total claims and expenses	178	761
Underwriting profit	468	944
Investment earnings	129	114
Net income	$ 597	$ 1,058
Facility Association receivable	$ 4,264	$ 4,366
Unearned premiums	523	764
Provision for unpaid claims	2,804	3,470
Facility Association payable	3,500	3,504

17. SEGMENTED INFORMATION

The Corporation provides property and casualty insurance through three operating segments: Manitoba and Alberta, Ontario and the Maritimes (where the Maritimes represents Prince Edward Island, New Brunswick and Nova Scotia). These operating segments correspond with the legal entities that make up the Corporation, as discussed in note 1. The performance of each operating segment is reported separately to the Corporation's Board of Directors.

	(thousands of $)				
2006	Manitoba & Alberta	Ontario	Maritimes	Consolidation Adjustments	Total
Net premiums written	$ 14,136	$ 26,064	$ 8,567	$ -	$ 48,767
Net premiums earned	$ 12,285	$ 23,352	$ 8,380	$ -	$ 44,017
Claims incurred	7,357	8,091	3,315	-	18,763
Other expenses	5,345	7,836	2,682	-	15,863
Underwriting profit (loss)	(417)	7,425	2,383	-	9,391
Investment earnings	2,225	4,073	827		7,125
Income before the following:	1,808	11,498	3,210	-	16,516
Loss from service agreement	-	1,588	-	-	1,588
Income taxes (recovery)	603	(442)	1,216	-	1,377
Non-controlling interest	-	-	-	480	480
Net income	$ 1,205	$ 10,352	$ 1,994	$ (480)	$ 13,071
Total assets	$ 77,731	$119,927	$ 30,129	$ (11,926)	$215,861
Shareholder's equity	$ 31,853	$ 27,665	$ 8,594	$ (1,792)	$ 66,320

	(thousands of $)				
2005	Manitoba	Ontario	Maritimes	Consolidation Adjustments	Total
Net premiums written	$ 11,749	$ 25,436	$ 8,213	$ -	$ 45,398
Net premiums earned	$ 11,323	$ 25,518	$ 8,348	$ -	$ 45,189
Claims incurred	7,482	13,649	1,978	-	23,109
Other expenses	4,494	7,192	2,758	-	14,444
Underwriting profit (loss)	(653)	4,677	3,612	-	7,636
Investment earnings	1,100	3,502	814		5,416
Income before the following:	447	8,179	4,426	-	13,052
Loss from service agreement	-	9,705	-	-	9,705
Income taxes (recovery)	103	(2,689)	1,702	-	(884)
Non-controlling interest	-	-	-	636	636
Net income	$ 344	$ 1,163	$ 2,724	$ (636)	$ 3,595
Total assets	$ 66,149	$113,667	$ 29,190	$ (9,103)	$199,903
Shareholder's equity	$ 29,644	$ 17,313	$ 7,915	$ (1,623)	$ 53,249

18. COMMITMENTS AND CONTINGENCIES

The Corporation's subsidiary, Coachman, has a lease for its office premises expiring Dec. 31, 2008 at an annual rent of $186,000.

In common with the insurance industry in general, the Corporation is subject to litigation arising in the normal course of conducting its insurance business. The Corporation is of the opinion that this litigation will not have a significant effect on the financial position or results of operation of the Corporation.

19. COMPARATIVE FINANCIAL INFORMATION

For comparative purposes, certain 2005 balances have been reclassified to conform to 2006 financial statement presentation.

SGI
CANADA